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Transmittal – See OCC 2020-11

Liquidity Coverage Ratio: Final Rule

Summary

On September 3, 2014, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), and the Federal Deposit Insurance Corporation (collectively, the agencies) issued a final rule that implements a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision (BCBS). The final rule is designed to strengthen the liquidity risk management of banks, savings associations, and bank holding companies.

The final rule applies to internationally active banking organizations, generally, those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance-sheet foreign exposure and to any consolidated bank or savings association subsidiary of one of these companies that, at the bank level, has total consolidated assets of $10 billion or more. (The final rule refers to these institutions collectively as "covered companies.") The final rule does not apply to bank holding companies or savings and loan holding companies with substantial insurance operations, to "bridge banks" that may be used in the course of bank resolutions, or to federal branches and agencies. The Federal Reserve Board separately adopted a less stringent, modified LCR requirement for bank holding companies and savings and loan holding companies without significant insurance or commercial operations that, in each case, have $50 billion or more in total consolidated assets but are not internationally active.

The final rule is effective on January 1, 2015.

To

Chief Executive Officers of All National Banks and Federal Savings Associations, Federal Branches and Agencies, Department and Division Heads, All Examining Personnel, and Other Interested Parties

Note for Community Banks

The final rule does not apply to community banks.

Highlights

The final rule creates a quantitative liquidity requirement, the LCR, for covered companies. The LCR is the ratio of a company's high-quality liquid asset (HQLA) amount to its projected net cash outflows over a 30-day period. When fully implemented, the final rule requires a covered company to maintain an LCR equal to or greater than 100 percent, which means that a covered company must maintain an HQLA amount equal to or greater than its projected total net cash outflows over a prospective 30-calendar-day period.

The final rule

- defines three categories of HQLA—level 1, level 2A, and level 2B liquid assets—and sets forth qualifying criteria and compositional limitations for an asset's inclusion in the HQLA amount (the LCR numerator).
- includes an approach for calculating a covered company's total net cash outflows (the LCR denominator) to address potential maturity mismatches in the company's outflows and inflows within the 30-calendar-day period.
- requires a covered company to notify its appropriate federal banking agency on any calculation date when its LCR is less than the minimum requirement and to submit a remediation plan if the shortfall persists.
- provides covered companies with a transition period for the daily calculation requirement.
- requires covered companies to comply with the minimum LCR standard as follows: 80 percent by January 1, 2015; 90 percent by January 1, 2016; and 100 percent by January 1, 2017.

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Background

Recognizing the need for banking organizations to improve their liquidity risk management and control their liquidity risk exposures, the BCBS established quantitative standards for liquidity in the Basel III liquidity framework in 2010[1] and updated the standards in 2013.[2] The framework introduced the Basel III LCR, which established the first international quantitative liquidity standard with the primary objective of promoting the short-term resilience of internationally active banking organizations. Beginning in January 2015, under the Basel III LCR, internationally active banking organizations would be required to start holding sufficient HQLA to meet their liquidity needs during a 30-day stress scenario.

Since the financial crisis, the agencies have worked to establish a more rigorous supervisory and regulatory framework for U.S. banking organizations that would incorporate and build on the BCBS liquidity standards. The final rule further enhances current supervisory efforts aimed at identifying, measuring, and managing liquidity risk by implementing a minimum quantitative liquidity requirement in the form of an LCR. The final rule is consistent with the Basel III LCR, with modifications to reflect characteristics and risks specific to aspects of the U.S. market and the U.S. regulatory framework. The final rule is more stringent in several areas than the Basel III LCR, including the range of assets that would qualify as HQLA, the assumed rate of outflows for certain types of funding, the calculation of total net cash outflows, and the required compliance timeline.

To assist national banks and federal savings associations with the implementation of the LCR final rule, the OCC is making available formulas for the ratio's numerator and denominator calculations at the link noted below.

Further Information

Please contact Kerri Corn, Director, or James Weinberger, Technical Expert, (202) 649-6360, Credit and Market Risk Division; Patrick T. Tierney, Assistant Director, or Tiffany Eng, Attorney, Legislative and Regulatory Activities Division, (202) 649-5490.

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Related Links

- "Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring" (Final Rule) (PDF)
- Liquidity Coverage Ratio Formulas (PDF)

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[1]See "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring" (PDF) - December 2010

[2]See "Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools" (PDF) - January 2013

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